



An Audit of the Teacher Retirement System of Texas

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Glenn Hegar
Texas Comptroller of Public Accounts



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Executive Summary

Purpose and Scope

The objectives of the Teacher Retirement System of Texas (System) audit were to determine whether:

- Contracts were procured according to applicable state laws and Comptroller requirements.
- Payments were processed according to applicable state laws, Comptroller requirements and statewide automated system guidelines.
- Documentation to support those payments was appropriately maintained.
- Capital and high-risk assets were properly recorded.
- Appropriate security over payments was implemented.

This audit was conducted by the Texas Comptroller of Public Accounts (Comptroller's office), and covers the period from Sept. 1, 2016, through Aug. 31, 2017.

Background

The Teacher Retirement System of Texas (System) was created in 1937 after an amendment to the Constitution of Texas to create a statewide teacher retirement system was approved. The board of trustees, composed of nine members, is responsible for the administration of the System. The System invests and protects retirement funds and delivers benefits to members as authorized by the Texas Legislature. Currently, the System serves more than 1.5 million public education employees and retirees.

**Teacher Retirement System of
Texas website**

<https://www.trs.texas.gov>

Audit Results

The System generally complied with the General Appropriations Act (GAA), relevant statutes and Comptroller requirements. Auditors found no issues with payroll, payroll deductions or travel. However, the System should consider making improvements to its contracting and procurement, security, and internal control processes.

The auditors noted no recurring issues from the prior post-payment audit issued in November 2013. An overview of audit results is presented in the following table.

Table Summary

Area	Audit Question	Results	Rating
Payroll Transactions	Did payroll transactions comply with the GAA, pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
Travel Transactions	Did travel transactions comply with the GAA, pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
<u>Contract Transactions</u>	Did the purchase/ procurement and contract-related payments comply with the GAA, pertinent statutes and Comptroller requirements?	<ul style="list-style-type: none"> • Missing procurement and contract documentation. • Failure to report to the Legislative Budget Board. • Inadequate monitoring of contract payments. 	Compliant, Findings Issued
<u>Security</u>	Are System employees who are no longer employed or whose security was revoked properly communicated to the Comptroller's office?	Failure to timely request security access removal.	Compliant, Findings Issued
<u>Internal Control Structure</u>	Are incompatible duties segregated to the extent possible to help prevent errors or detect them in a timely manner and help prevent fraud?	One employee with overlapping security access for multiple duties.	Compliant, Findings Issued
Fixed Assets	Were tested assets in their intended location and properly reported in the State Property Accounting system?	No issues	Fully Compliant



Key Recommendations

Auditors made several recommendations to help mitigate risk arising from control weaknesses. Key recommendations include:

- The System should enhance its procurement procedures to ensure all requirements are met.
- The System must monitor all contract payments to ensure no duplicate payments are submitted or credit memos remain outstanding.
- The System must ensure that notifications sent to the Comptroller's office to remove an employee's Uniform Statewide Accounting System (USAS) security profile are sent on or before the effective date of the revocation or termination to prevent the employee from executing electronic approvals for the agency.
- To reduce risks to state funds, the System must have controls over expenditure processing that segregate each accounting task to the greatest extent possible.



Detailed Findings

Payroll Transactions

Auditors developed a representative sample totaling \$1,666,567.42 from a group of 30 employees involving 106 payroll transactions to ensure the System complied with the GAA, the [Texas Payroll/Personnel Resource \(FPP F.027\)](#) and pertinent statutes. Audit tests revealed no exceptions for this group of transactions. Additionally, a limited sample of 16 voluntary contribution transactions was audited with no exceptions identified.

Travel Transactions

Auditors developed a representative sample of 30 travel transactions totaling \$6,394.41 to ensure the System complied with the GAA, [Textravel \(FPP G.005\)](#), pertinent statutes and Comptroller requirements. Audit tests revealed no exceptions for this group of transactions.

Contract Transactions

Auditors selected six contracts totaling \$85,019,665.67 for review and developed a representative sample of 36 contract payments totaling \$9,752,055.55 to ensure the System complied with the GAA, [eXpendit \(FPP I.005\)](#), the [State of Texas Procurement and Contract Management Guide](#) and pertinent statutes.

Contract	Amount	Type of Service	Procurement Cycle				
			Planning	Procurement Method Determination	Vendor Selection	Contract Formation/Award	Contract Management
Contract A	\$10,011,900.00	Financial and Accounting Services				<ul style="list-style-type: none">• Missing/incomplete contract clauses.• Failure to report to the Legislative Budget Board.	<ul style="list-style-type: none">• Noncompliant with contract conditions.• Inadequate monitoring of contract payments.
Contract B	\$658,241.50	Financial and Accounting Services				<ul style="list-style-type: none">• Missing/incomplete contract clauses.• Failure to report to the Legislative Budget Board.	



Contract	Amount	Type of Service	Procurement Cycle				
			Planning	Procurement Method Determination	Vendor Selection	Contract Formation/Award	Contract Management
Contract C	\$1,187,036.00	Information Technology Services					
Contract D (limited testing)	\$42,451,104.00	Information Technology Services				Missing/incomplete contract clauses	
Contract E (limited testing)	\$22,032,584.17	Rental of Office Building				Missing System for Award Management check	
Contract F (limited testing)	\$8,678,800.00	Information Technology Services				<ul style="list-style-type: none">• Missing/incomplete contract clauses• Missing System for Award Management check	

Missing Procurement and Contract Documentation

Five out of the six contracts selected for review were missing specific required documentation as noted below.

Missing/Incomplete Contract Clauses

Auditors identified four contracts that did not include required clauses. Three of the four contracts were missing required wording under the Dispute Resolution (General) contract clause. The fourth contract was missing the Dispute Resolution (General) contract clause, the Excess Obligations Prohibited clause and the Excluded Parties clause. These required contract clauses are essential to protect the interest of the state. The System indicated that due to the passage of time, staff turnover, and lack of any explanatory information in the contract file, it was unable to account for the missing clauses.

The Texas Required Contract Clauses must be included in both solicitations and contracts. The wording of the Texas Required Contract Clauses must substantially conform to the standard text or alternate text as stipulated in the [State of Texas Procurement and Contract Management Guide](#) – Appendix 22.



Recommendation/Requirement

To continue to protect the interest of the state, the System must review its solicitations and contracts to ensure all applicable required clauses are included.

System Response

The System has worked with Legal and we have already updated our current T&Cs.

Missing System for Award Management Check

Auditors identified two contracts where the System was unable to provide required System for Award Management (SAM) printouts dated before their respective contract awards. The System provided documentation that the checks were completed, but the documentation was not dated before the contracts were executed.

The agency must check the SAM database to verify that the vendor is not excluded from grant or contract participation at the federal level. A contract cannot be awarded to a vendor named on the U.S. Treasury Department, Office of Foreign Assets Control's master list of Specially Designated Nationals and Blocked Persons (with limited exceptions set forth in the executive order). See [State of Texas Procurement and Contract Management Guide](#) – SAM Check.

Recommendation/Requirement

The System must conduct a vendor contract verification search before any purchase, contract award, extension or renewal. A final check of the Specially Designated Nationals and Blocked Persons List must be made before any contract award to ensure the System does not award contracts to any person or vendor whose name appears on the list. A dated copy of the results from the SAM database must be retained and included in the procurement file.

System Response

The System has updated their internal processes and developed check lists to ensure all compliance documents are done. The System also has an internal review process for contracts that ensures these documents are completed.

Noncompliance with Contract Conditions

Auditors identified one contract where the System was unable to provide written travel approval documentation as stipulated in the contract's general terms and conditions. The travel costs section in the contract states that the System will reimburse the vendor for any travel and lodging expenses incurred by the vendor's staff if approved in writing by the System. Four out of the six transactions reviewed under this contract that



included travel expenses did not comply with the contract terms and conditions. Per the System, the travel was in Austin and the contract states if outside the Austin area then written approval before travel is required. However, per amendment number four of the contract, the System will reimburse the vendor for any vendor staff travel and lodging expenses incurred if approved in writing.

State agencies must maintain supporting documentation specifically required by state travel rules and guidance, as well as any other documentation that is reasonably necessary to prove the legality and fiscal responsibility of the agency's travel reimbursements. See [Texttravel – Documentation: General Provisions](#).

Recommendation/Requirement

The System must review documentation before processing payments to ensure expenses are allowable under the contract terms and conditions and in compliance with state travel rules and regulations.

System Response

The System has conducted a Contract Sponsor Training that addressed what the contract sponsor should be maintaining in their contract file. For all contracts that are \$100,000 or more, the System's purchasing and contract team reviews the Contract Sponsor Acknowledgment form with the Contract Sponsor, which is signed by the Contract Sponsor and outlines their role and responsibility. Ensuring all contract deliverables and documentation is kept in the Contract Sponsor contract file is part of that acknowledgment form.

Failure to Report to the Legislative Budget Board

Auditors identified two contracts for \$10,011,900 and \$658,241.50 where the System did not report the contract to the Legislative Budget Board (LBB). [General Appropriations Act \(GAA\), Reporting Requirements, Article IX, Section 7.04](#) requires a state agency that receives an appropriation under the GAA to report to the LBB a contract with a value greater than \$50,000, "without regard to source of funds or method of finance associated with the expenditure, including a contract for which only non-appropriated funds will be expended." The submission must include required documentation such as the award, solicitation documents, renewal, amendments, addendums, extensions, attestation letters and certain types of supporting records related to contracts. Contracts initially reported to the LBB database do not have to be re-posted on the web under [Texas Government Code, Section 2261.253\(g\)\(1\)](#). Per the System, one contract is for actuarial and health care consulting services and not considered to be for professional services as defined by [Texas Government Code 2254.002\(2\)](#). The System added that the second contract was for audit services. However, since the System is an agency that receives an appropriation under the GAA and both contracts had a value greater than \$50,000, it was required to report the contracts to the LBB.



Recommendation/Requirement

The System must report in compliance with the [LBB Contract Reporting Guide](#).

System Response

The System has updated their internal processes and developed check lists to ensure all compliance documents are done. The System also has an internal review process for contracts that ensures these documents are completed.

Inadequate Monitoring of Contract Payments

Auditors identified one contract where the System failed to timely account for a \$47,506.61 third-party payment made to a vendor. The contract allowed for payments to be made to the vendor by the System and it's contractors with the System responsible for monitoring the payments. The vendor applied the third-party payment to a current invoice. The System, unknowingly, then submitted full payment to the vendor on the same invoice, resulting in an outstanding credit memo that was not accounted for until five months later as a result of the audit. [Texas Government Code, Section 404.094](#) states that a deposit must be made at the earliest possible time that the state's treasury can accept the funds. Failing to monitor payments made to vendors can lead to outstanding credit memos or duplicate payments that result in interest lost on funds held by the state that should have been returned to the state in a timely manner. The System stated that this may have occurred as a result of an oversight.

Recommendation/Requirement

The System must continue to monitor any third-party payments made on contracts as stipulated in the contracts along with the payments made by the System to ensure no duplicate payments are submitted or credit memos are outstanding.

System Response

For all contracts that are \$100,000 or more, the Contract Sponsor is now required to sign a "Contract Sponsor Acknowledgment" form that outlines their role and responsibility and monitoring payments is on there. The System created an invoice check list to help the Contract Sponsors know how to approve an invoice and monitoring is required.

Security

The audit included a security review to identify System employees with security in USAS or on the voucher signature cards who were no longer employed or whose security had been revoked. Upon termination or revocation, certain deadlines must be met so that security can be revoked in a timely manner. Audit tests revealed the following security exception.



Employee Retained Security to Expend Funds after Termination

During the audit period, the System failed to submit a timely request to the Comptroller's office for one terminated employee who had been designated to approve expenditures. The request to remove the employee from the signature card was sent two days late, so the former employee could have approved expenditures submitted to the Comptroller's office during that time. Any payment that was approved under the employee's expired authority would have constituted an unapproved expenditure. Auditors determined no payments were processed by the employee during the audit period.

If an employee's authority to approve an agency's expenditures is revoked for any reason, the employee's USAS security profile must be changed no later than the effective date of the revocation or termination to prevent the employee from executing electronic approvals for the agency. See [34 Texas Administrative Code Section 5.61\(k\)\(5\)\(A\)-\(B\)](#).

Per the System, it was unable to find the letter it sent requesting the access removal to know exactly when the request was submitted.

Recommendation/Requirement

The System must ensure notifications sent to the Comptroller's office to remove an employee's USAS security profile are sent on or before the effective date of the revocation or termination to prevent the employee from executing electronic approvals for the agency.

System Response

The System has implemented steps to ensure our Uniform Statewide Accounting System (USAS) security coordinators are emailed and included in our employee exit work flow. A manager or supervisor submits a request form that states when an employee is leaving employment for the agency. This form is routed to various departments and will now include finance so we can terminate access in a timely manner. When the notification of employee termination is received via email from the exit work flow our agency security coordinators will submit the request for the removal of the employees USAS security on or before the effective date of termination as required.

Internal Control Structure

The review of the System's internal control structure was limited to obtaining reports identifying current users' access. The review did not include tests of existing mitigating controls. The audit tests revealed one exception in user access.



Control Weakness over Expenditure Processing

As part of the planning process for the post-payment audit, auditors reviewed certain limitations that the System placed on its accounting staff's ability to process expenditures. Auditors reviewed the System's security in USAS, the Uniform Statewide Payroll/Personnel System (USPS), the Texas Identification Number System (TINS) and the voucher signature cards in effect on Jan. 18, 2018. Auditors did not review or test any internal or compensating controls that the System might have relating to USAS, USPS or TINS security or internal transaction approvals.

The System had one employee who could adjust payment instructions in TINS and approve vouchers. The System stated that this was an oversight. Auditors ran a report to determine whether any of the System's payment documents processed through USAS during the audit period because of the action of only one person. There were no documents that were either entered and approved, or altered and approved, by the same person without another person's oversight.

As a result of the audit, the System submitted a security request to the Comptroller's office to change the employee's TINS access to PTINS02, inquiry only access.

Recommendation/Requirement

To reduce risks to state funds, the System must have controls over expenditure processing that segregate each accounting task to the greatest extent possible. Ideally, no individual should be able to process transactions without another person's involvement.

System Response

The System has implemented steps to ensure no employee will have access to release batches in Uniform Statewide Accounting System (USAS) and have security to update Texas Identification Number System (TINS) information. When the USAS security group receives a request to update/add to the list of officers and employees designated to approve the systems expenditures they will complete a verification of TINS access. They will research and verify employees who have access to TINS are assigned PTINS02 (inquiry only). If the employee has any access other than inquiry only the security group will make the necessary updates after informing the employee and prior to submitting the agency list change.

Fixed Assets

The audit included a review of a limited number of fixed assets acquired by expenditures during the audit period to test for proper tracking in the System's internal system. All assets tested were in their intended location and properly tagged. Audit tests revealed no exceptions for this group of transactions.



Appendices

Appendix 1 — Objectives, Scope, Methodology, Authority and Team

Audit Objectives

The objectives of this audit were to:

- Ensure payments are documented so a proper audit can be conducted.
- Ensure payment vouchers are processed according to the requirements of any of the following:
 - Uniform Statewide Accounting System (USAS),
 - Uniform Statewide Payroll/Personnel System (USPS),
 - Standardized Payroll/Personnel Report System (SPRS) or
 - Human Resource Information System (HRIS).
- Verify payments are made in accordance with certain applicable state laws.
- Verify assets are in their intended locations.
- Verify assets are properly recorded for agencies and institutions of higher education that use the State Property Accounting (SPA) system.
- Verify voucher signature cards and systems security during the audit period are consistent with applicable laws, rules and other requirements.

Audit Scope

Auditors reviewed a sample of the Teacher Retirement System of Texas (System) payroll, purchase and travel transactions that processed through USAS and USPS from Sept. 1, 2016, through Aug. 31, 2017, to determine compliance with applicable state laws.

The System receives appendices with the full report, including a list of the identified errors.

Copies of the appendices may be requested through a [Public Information Act](#) inquiry.

Texas law requires the Texas Comptroller of Public Accounts (Comptroller's office) to audit claims submitted for payment through the Comptroller's office. All payment transactions are subject to audit regardless of amount or materiality.

The audit provides a reasonable basis for the findings set forth in this report. The System should implement the recommendations listed in the Detailed Findings of this report. It is the System's responsibility to seek refunds for all overpayments unless it determines it is not cost effective to do so. If necessary, the Comptroller's office may take the actions set forth in Texas Government Code, Section 403.071(h), to ensure that the System's documents comply in the future. The System must ensure that the findings discussed in this report are resolved.



Audit Methodology

The Expenditure Audit section uses limited sampling to conduct a post-payment audit.

Fieldwork

Each auditor in the Expenditure Audit section approaches each audit with an appropriate level of professional skepticism based on the results of the initial planning procedures.

If an auditor suspects during an audit that fraud, defalcation or intentional misstatement of the facts has occurred, the auditor will meet with his or her supervisor, the Statewide Fiscal Oversight manager, or both, to decide what action or additional procedures would be appropriate.

Audit Authority

State law prohibits the Comptroller's office from paying a claim against a state agency unless the Comptroller's office audits the corresponding voucher.

- Texas Government Code, Sections 403.071(a), 403.078, 2103.004(a)(3).

State law allows the Comptroller's office to audit a payment voucher before or after the Comptroller's office makes a payment in response to that voucher.

- Texas Government Code, Section 403.071(g)-(h).

In addition, state law authorizes the Comptroller's office to conduct pre-payment or post-payment audits on a sample basis.

- Texas Government Code, Sections 403.011(a)(13), 403.079, 2155.324.

Audit Team

Mayra Castillo, CTCD, Lead Auditor

Melissa Hernandez, CTCD, CTCM

Derik Montique, MBA, CFE, CGFM

Jack Lee, CPE, CFA

Jesse Ayala



Appendix 2 — Definition of Ratings

Compliance Areas

Definition	Rating
Agency complied with applicable state requirements and no significant control issues existed.	Fully Compliant
Agency generally complied with applicable state requirements; however, control issues existed that impact the agency's compliance, or minor compliance issues existed.	Compliant, Findings Issued
Agency failed to comply with applicable state requirements.	Noncompliant
Restrictions on auditor's ability to obtain sufficient evidence to complete all aspects of the audit process. Causes of restriction include but are not limited to: <ul style="list-style-type: none">• Lack of appropriate and sufficient evidentiary matter.• Restrictions on information provided to auditor.• Destruction of records.	Scope Limitation

Internal Control Structure/Security Areas

Definition	Rating
Agency maintained effective controls over payments.	Fully Compliant
Agency generally maintained effective controls over payments; however, some controls were ineffective or not implemented. These issues are unlikely to interfere with preventing, detecting, or correcting errors or mitigating fraudulent transactions.	Control Weakness Issues Exist
Agency failed to effectively create or implement controls over payments.	Noncompliant

Repeat Finding Icon Definition



This issue was identified during the previous post-payment audit of the agency.